

## Message Text

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PAGE 01 BONN 07649 01 OF 04 031906Z  
ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-07  
NSC-05 EPG-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06  
LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /110 W  
-----032013Z 113982 /63

R 031812Z MAY 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 7946  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 04 BONN 07649

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A  
TAGS: EFIN, GW  
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING MAY 2)

REF.: BONN 7166 AND 6756

1. CENTRAL BANK MONEY, MONEY SUPPLY:  
IN MARCH, CENTRAL BANK MONEY, SEASONALLY ADJUSTED,  
INCREASED ONLY DM 0.4 BILLION BRINGING THE TOTAL VOLUME  
UP TO DM 122.5 BILLION. COMPARABLE FIGURES FOR  
FEBRUARY AND JANUARY WERE DM 122.1 BILLION  
AND DM 120.9 BILLION, RESPECTIVELY. IN THE PERIOD  
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JANUARY-MARCH, CENTRAL BANK MONEY, FIGURED AT AN ANNUAL  
RATE, INCREASED BY 7.4 PERCENT. FOR THE YEAR TO DATE,  
THEREFORE, CENTRAL BANK MONEY GROWTH IS RUNNING SOME-  
WHAT IN EXCESS OF THE 6 1/2 PERCENT ANNUAL GROWTH RATE  
WHICH MUST BE MAINTAINED IN 1977 IN ORDER TO REACH THE  
8 PERCENT (AVERAGE 1976 OVER AVERAGE 1977) MONETARY  
GROWTH TARGET OF THE BUNDESBANK.

IN MARCH, ON A SEASONALLY ADJUSTED BASIS, M 1, M 2 AND  
M 3 DEVELOPED AS FOLLOWS (CHANGES IN BILLION DM;  
SEASONALLY ADJUSTED AND NON-ADJUSTED):

|  | SEASONALLY<br>ADJUSTED |      |      | SEASONALLY<br>UNADJUSTED |      |      |
|--|------------------------|------|------|--------------------------|------|------|
|  | JAN.                   | FEB. | MAR. | JAN.                     | FEB. | MAR. |

|     |     |     |      |       |     |      |
|-----|-----|-----|------|-------|-----|------|
| M 1 | 7.1 | 2.0 | -1.3 | -8.8  | 1.3 | 0.3  |
| M 2 | 1.1 | 2.1 | 1.0  | -14.9 | 2.2 | -2.3 |
| M 3 | 5.3 | 4.1 | 1.5  | -8.9  | 3.2 | -3.5 |

INDIVIDUAL DETERMINANTS OF THE MONEY SUPPLY DEVELOPED  
AS FOLLOWS (SEASONALLY NON-ADJUSTED; CHANGES IN BILLION  
OF DM):

|  | MARCH |      |      | FEBRUARY |      |      |
|--|-------|------|------|----------|------|------|
|  | 1977  | 1976 | 1977 | 1977     | 1976 | 1977 |

I. LENDING TO DOMESTIC NON-  
BANKS 8.7 5.7 4.6  
FROM BUNDESBANK -0.1 -1.0 -0.4  
FROM COMMERCIAL BANKS 8.8 6.7 4.9  
TO PUBLIC SECTOR 2.6 3.4 1.8  
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TO PRIVATE SECTOR 6.2 3.3 3.1  
II. NET EXTERNAL POSITION OF  
BUNDESBANK AND COMMERCIAL BANKS 1.4 4.9 2.1  
III. LONG-TERM BANK DEPOSITS  
AND OUTSTANDING BANK  
BONDS 1/ 3.8 5.1 5.0  
IV. OFFICIAL ASSETS HELD AT  
CENTRAL BANK 5.1 2.6 -0.1  
V. OTHER 4.7 5.8 -1.4

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INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-07  
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LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /110 W  
-----032011Z 114044 /63

R 031812Z MAY 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 7947  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL FRANKFURT

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VI. M3 (2) (EQUALS I PLUS II  
MINUS III MINUS IV  
MINUS V) -3.5 -2.9 3.2  
VII. M2 (M3 MINUS SAVINGS  
DEPOSITS) -2.3 -2.5 2.2  
VIII. M1 (M2 MINUS TIME  
DEPOSITS) 0.3 1.4 1.3  
-----

1/ EXCLUDING SIGHT DEPOSITS, TIME DEPOSITS WITH MATU-  
RITIES UP TO 4 YEARS, AND SAVINGS DEPOSITS WITH 3-MONTH  
PERIOD OF NOTICE, AND BONDS HELD BY BANKS.

2/ CURRENCY IN CIRCULATION, SIGHT DEPOSITS, TIME  
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DEPOSITS WITH MATURITIES UP TO 4 YEARS AND SAVINGS  
DEPOSITS WITH 3-MONTH PERIOD OF NOTICE.

THE BUNDESBANK ATTRIBUTED THE RELATIVELY LOW INVEST-  
MENT IN LONG-TERM BANK DEPOSITS AND OUTSTANDING BANK  
BONDS IN MARCH TO LARGE PURCHASES BY INDIVIDUALS OF

FEDERAL SAVINGS BONDS (WHICH IN MARCH CARRIED ATTRACTIVE YIELDS), AND THE EARLY START THIS YEAR OF EASTER VACATIONS.

## 2. FOREIGN EXCHANGE MARKET:

SUBSEQUENT TO THE RELEASE OF U.S. TRADE FIGURES FOR MARCH, THE DOLLAR CAME UNDER PRESSURE ON GERMAN FOREIGN EXCHANGE MARKETS. THE DECLINE IN THE DOLLAR RATE AGAINST DEUTSCHEMARK WAS MOST PRONOUNCED FROM THE 27TH TO THE 28TH OF APRIL WHEN THE DOLLAR RATE DROPPED MORE THAN A PFENNIG VIS-A-VIS THE DEUTSCHEMARK. DURING THE REPORTING PERIOD, FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

|        | FORWARD DOLLARS |        |                     |           |             |
|--------|-----------------|--------|---------------------|-----------|-------------|
|        | SPOT DOLLARS    |        | (IN PCT. PER ANNUM) |           |             |
|        | OPENING         | FIXING | CLOSING             | ONE-MONTH | THREE-MONTH |
| APR 26 | 2.3710          | 2.3707 | 2.3705              | -0.6      | -0.8        |
| 27     | 2.3725          | 2.3686 | 2.3630              | -0.4      | -0.8        |
| 28     | 2.3580          | 2.3565 | 2.3560              | -0.6      | -0.9        |
| 29     | 2.3595          | 2.3589 | 2.3555              | -0.9      | -0.8        |
| MAY 2  | 2.3565          | 2.3557 | 2.3550              | -0.9      | -1.0        |
| 3      | 2.3575          | 2.3576 | N.A.                | N.A.      | N.A.        |

## 3. MONEY MARKET:

MONEY MARKET RATES EASED SLIGHTLY IN THE ONE AND THREE MONTH CATEGORIES DURING THE REPORTING PERIOD. CALL MONEY, HOWEVER, CONTINUED TO BE AT OR NEAR THE 4.5 PERCENT LOMBARD LENDING RATE. FRANKFURT INTERBANK RATES UNCLASSIFIED

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DURING THE PAST WEEK DEVELOPED AS FOLLOWS:

|        | CALL MONEY |      |      | ONE-MONTH | THREE-MONTH |
|--------|------------|------|------|-----------|-------------|
| APR 25 | 4.4-4.6    | 4.55 | 4.65 |           |             |
| 26     | 4.5-4.6    | 4.55 | 4.65 |           |             |
| 27     | 4.5        | 4.55 | 4.65 |           |             |
| 28     | 4.4-4.6    | 4.55 | 4.65 |           |             |
| 29     | 4.4-4.5    | 4.50 | 4.65 |           |             |
| MAY 2  | 4.4-4.5    | 4.50 | 4.60 |           |             |

## 4. \$150 MILLION LOAN OF VOLKSWAGEN:

THE FINAL CONDITIONS OF THE \$150 MILLION LOAN OF THE VOLKSWAGEN OVERSEAS FINANCE N.V., CURACAO (SEE BONN 6756) HAVE NOW BEEN DETERMINED AS FOLLOWS: COUPON 7 3/4 PERCENT, ISSUE PRICE 100 1/2, MATURITY 10 YEARS. THE LOAN WILL BE GUARANTEED BY THE GERMAN PARENT, THE VOLKSWAGENWERK A.G., AND WILL BE USED TO FINANCE VOLKSWAGEN

INVESTMENT OUTSIDE THE FRG.

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LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /110 W  
-----032010Z 114122 /63

R 031812Z MAY 77  
FM AMEMBASSY BONN  
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INFO AMEMBASSY BERN  
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5. MONETARY RESERVES:

DURING THE PERIOD APRIL 16-23 BUNDESBANK MONETARY  
RESERVES DECLINED BY DM 0.4 BILLION TO DM 85.3 BILLION.  
FOREIGN EXCHANGE HOLDINGS FELL BY DM 317 MILLION AND  
SDR HOLDINGS BY DM 5 MILLION. FOREIGN LIABILITIES  
INCREASED BY ABOUT DM 80 MILLION. DURING THE FIRST  
THREE WEEKS OF APRIL THE DECLINE IN THE BUNDESBANK'S  
NET FOREIGN POSITION TOTALLED DM 1.0 BILLION.

6. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY DECLINED  
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CONSIDERABLY BY DM 4.3 BILLION. THE BASIC FACTOR REDUCING BANK LIQUIDITY WERE PAYMENTS FOR THE MID-APRIL TAX DATE. DUE TO THESE PAYMENTS FEDERAL GOVERNMENT ASSETS HELD AT THE BUNDESBANK INCREASED BY DM 4.3 BILLION TO DM 6.6 BILLION AND STATE GOVERNMENT ASSETS BY DM 1.9 BILLION TO DM 8.1 BILLION. ASSETS OF OTHER PUBLIC AUTHORITIES DECLINED BY DM 0.4 BILLION. OTHER FACTORS REDUCED LIQUIDITY, NET, BY DM 1.3 BILLION INCLUDING THE ABOVE DECLINE IN BUNDESBANK MONETARY RESERVES AND DM 0.3 BILLION OF BUNDESBANK SALES OF MONEY MARKET PAPER.

FACTORS INCREASING LIQUIDITY WERE THE USUAL DECLINE IN CURRENCY IN CIRCULATION IN THE THIRD WEEK OF A MONTH (DM 1.9 BILLION) AND A DM 0.9 BILLION DECLINE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. (DURING THE PERIOD APRIL 1-23 BANK RESERVES HELD AT THE BUNDESBANK AMOUNTED TO DM 46.2 BILLION ON AN AVERAGE PER DAY CALCULATION AS COMPARED WITH PRELIMINARY RESERVE REQUIREMENTS OF DM 46.6 BILLION.)

THE BANKS FINANCED THE LIQUIDITY LOSS THROUGH INCREASING LOMBARD BORROWINGS BY DM 3.3 BILLION, INCREASED BORROWINGS UNDER THE SPECIAL REDISCOUNT FACILITY OF DM 0.7 BILLION AND NORMAL REDISCOUNT BORROWINGS OF DM 0.3 BILLION. ON APRIL 23 THE BANKS' REDISCOUNT BORROWINGS AMOUNTED TO DM 17.9 BILLION, LOMBARD BORROWINGS TO DM 4.2 BILLION AND BORROWINGS UNDER THE SPECIAL REDISCOUNT FACILITY TO DM 4.1 BILLION. THUS, ON APRIL 23, THE BANKS' TOTAL CENTRAL BANK INDEBTEDNESS AMOUNTED TO DM 26.2 BILLION, A RECORD INDEBTEDNESS IN THIS YEAR.

7. BOND MARKET:  
ON THE MARKET FOR DOMESTIC BONDS PRICE INCREASES  
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CAME TO A HALT. THE FEDERAL RAILWAYS LOAN OFFERED ON APRIL 28 AT A 6.5 PERCENT COUPON (SEE BONN 7166) WAS ONLY SLOWLY SOLD. CURRENTLY IT IS TRADED AMONG BANKS AT A DISCOUNT OF 1/2 PERCENT FROM THE ISSUE PRICE OF 100. FOR THE TIME BEING, INDIVIDUAL INVESTORS APPARENTLY PREFER INVESTMENTS IN FEDERAL SAVINGS BONDS CARRYING YIELDS OF 6.25 PERCENT (6 YEAR MATURITY, ANNUAL INTEREST PAYMENTS), AND 6.60 PERCENT (7 YEARS,

ACCUMULATED INTEREST). MOREOVER, GERMAN INVESTORS REPORTEDLY HAVE INCREASED INVESTMENTS IN FOREIGN DM BONDS DUE TO THE ATTRACTIVE CONDITIONS OF THESE ISSUES (HIGHER YIELDS, SHORTER MATURITIES -- SEE PARAGRAPH ON FOREIGN DM BONDS). ACCORDING TO THE GERMAN FINANCIAL PRESS, CURRENTLY DOMESTIC INVESTORS ACQUIRE ABOUT 50 PERCENT OF NEWLY OFFERED FOREIGN DM BONDS.

ACCORDING TO THE PRESS, AVERAGE CURRENT YIELDS OF DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY ARE AS FOLLOWS:

REMAINING MATURITY

(YEARS)    1    3    5    7    9    10

-----

YIELD TO MATURITY

APRIL 29    4.75 5.50 5.90 6.25 6.45 6.55

22    4.75 5.55 5.90 6.20 6.45 6.55

15    4.75 5.50 6.10 6.30 6.50 6.60

8. FOREIGN DM BONDS:

CURRENTLY THE FOLLOWING NEW ISSUES OF DM BONDS OF FOREIGN BORROWERS ARE BEING OFFERED:

IBRD: DM 400 MILLION (PUBLICLY OFFERED), COUPON 6 1/2 PERCENT, ISSUE PRICE 99 1/2, MATURITY 10 YEARS; DM 100 MILLION (PRIVATE PLACEMENT) 6 1/2 PERCENT, 99 1/2, 8 YEARS.

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DENMARK: TWO TRANCHES: DM 150 MILLION, 6 3/4  
PERCENT, 100, 6 YEARS; DM 100 MILLION, 7 1/4 PERCENT,  
100, 10 YEARS.

BRITISH ICI: DM 150 MILLION, 6 3/4 PERCENT, 100,  
10 YEARS.

SINGAPORE: DM 100 MILLION, 6 1/2 PERCENT, 100 1/2,  
6 YEARS.

ANTICIPATED BORROWERS ARE THE LUXEMBOURG CONCERN  
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ARBED (DM 100 MILLION, 6 3/4 PERCENT) AND THE NORWEGIAN  
DEN NORSKE INDUSTRIEBANK (DM 50 MILLION, 6 3/4 PERCENT).

#### 9. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

##### SEASONALLY ADJUSTED BUNDESBANK DATA

-----  
NOV. DEC. JAN. FEB.  
-----

##### RETAIL SALES VOLUME

(1970 EQUALS 100) 117 116 116 117

##### VOLUME OF TRADE

(DM BILLION)

EXPORTS 16.22 15.58 15.89 15.99

IMPORTS 3 13.99 14.57 14.36 14.12

##### BUILDING PERMITS FOR

HOUSING UNITS



(1970 EQUALS 100) 70 78 72 --

DEC. JAN. FEB. MARCH

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#### LIVINGS COSTS

(1970 EQUALS 100) 143.1 143.7 144.3 144.8

#### INDUSTRIAL PRODUCER

##### PRICES

(1970 EQUALS 100) 143.0 143.3 143.1 143.4

#### AGRICULTURAL PRODUCER

##### PRICES

(1970 EQUALS 100) 144.6 147.7 147.5 --

#### NON-SEASONALLY ADJUSTED FIGURES

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(PERCENT CHANGE FROM  
PREVIOUS YEAR'S LEVEL 1))

JAN. FEB. MARCH APRIL

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LIVING COSTS 4.1 4.0 3.9 3.7

#### INDUSTRIAL PRODUCER

PRICES 4.2 3.8 3.7 --

IMPORT PRICES 4.1 4.9 5.7 --

EXPORT PRICES 2.2 2.3 2.3 --

#### INSOLVENCIES

PERCENT CHANGE 6.7 6.3 -- --

TOTAL 842 838 -- --

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1) UNLESS INDICATED OTHERWISE.

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## Message Attributes

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**Channel Indicators:** n/a  
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**Copy:** SINGLE  
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**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01-Jan-1960 12:00:00 am  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977BONN07649  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770155-0186  
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**From:** BONN  
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**Legacy Key:** link1977/newtext/t197705101/aaaadjw.tel  
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**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 67d05087-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 9  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 BONN 7166  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 14-Oct-2004 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2322728  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FINANCIAL DEVELOPMENTS (WEEK ENDING MAY 2)  
**TAGS:** EFIN, GE  
**To:** STATE TRSY  
**Type:** TE  
**vdkgvkey:** odbc://SAS/SAS.dbo.SAS\_Docs/67d05087-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009